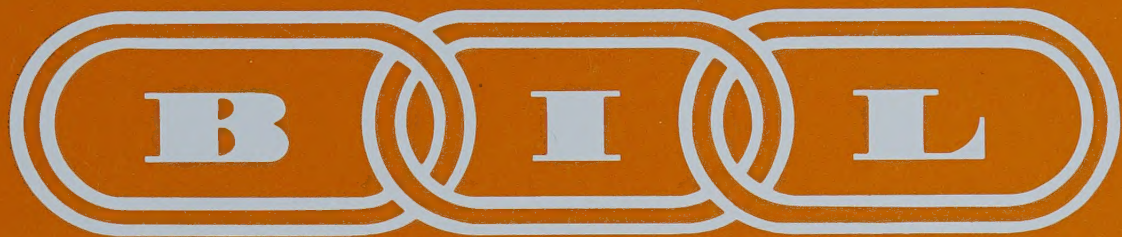


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BARTACO INDUSTRIES LIMITED

1974 Annual Report

Bartaco Industries Limited

and subsidiary companies

Corporate Offices: West Street, South,
Orillia, Ontario, L3V 6L3 - Tel. (705) 325-6121

OFFICERS and DIRECTORS - 1974

OFFICERS

DAVID L. CHANDLER, Chairman of the Board

DOUGLAS R. McKAY, President

MEL. J. ELEMENT, Vice-President

FRANK W. SIMPSON, Secretary-Treasurer

DIRECTORS

DAVID L. CHANDLER, Executive
c/o Garvey, Ferriss
Toronto, Ontario

HAROLD J. MURPHY, Q.C.
Garvey, Ferriss
Toronto, Ontario

DOUGLAS R. McKAY, Executive
Galt Malleable Iron Limited
Cambridge, Ontario

FRANK W. SIMPSON, Executive
Galt Malleable Iron Limited
Cambridge, Ontario

MYRON S. GELBACH, Jr., Executive
Alco Standard Corporation
Philadelphia, Pennsylvania

WILLIAM F. DRAKE, Jr., Executive
Alco Standard Corporation
Philadelphia, Pennsylvania

TRANSFER AGENT and REGISTRAR

Shares: National Trust Company Limited
Montreal, Toronto, Winnipeg and Vancouver

AUDITORS

COOPERS & LYBRAND
Hamilton, Ontario

LEGAL COUNSEL

GARVEY, FERRISS
Toronto, Ontario

STOCK LISTINGS

Ticker Symbol 'BTI'

ANNUAL AND GENERAL MEETING

The Annual Meeting of Shareholders will be held in the Conference Room at the Sundial Motor Inn, Orillia, Ontario, on February 5, 1975 at 10:00 a.m. local time. Notice of this meeting, together with the Information Circular and Proxy Form is enclosed with this Report.

President's Report to the Shareholders:

On behalf of your Directors, I am pleased to present the 1974 Annual Report of Bartaco Industries Limited and its subsidiary companies.

As you will recall, at the Shareholders Meeting on March 25, 1974, approval was granted for Galt Malleable Iron Limited to assume management of your Company. We are pleased to report that progress has been made during that portion of the fiscal period during which Galt assumed management control.

This 1974 report includes not only the results of certain companies sold during the fiscal year, but also includes the operational losses incurred prior to Galt assuming management control.

Accordingly, I submit my report as follows:

Financial Results

Operating Profit from the continuing operations of your Company, in fiscal year 1974 amounted to \$240,979 as compared to the 1973 operational loss of \$821,106. If we were not to take into account the non-recurring losses experienced by companies and divisional operations no longer owned by your Company, we would then be able to report a 1974 profit of 11 cents per share.

This turnaround has been achieved through major changes within the Company as well as by the injection of \$600,000 in working capital by Galt Malleable Iron Limited in accordance with its 1974 agreement with Alco Standard Corporation. I am hopeful that these changes will continue to benefit the Shareholders of the Corporation and you can be assured that management will always be alert to all available opportunities to improve operational efficiency.

As this report must include the entire fiscal period, the non-recurring losses of certain companies, together with the loss on the sale of subsidiary companies (noted under Extraordinary Items) result in a loss for the period in the amount of 82 cents per share.

Operations

Present management has concentrated in the area of Manufacturing, Construction and Engineering and is no longer involved in Leisure-Time Industries.

Your Otaco Foundry and Factory operations have shown considerable progress and I am hopeful it will continue to do so.

The Electronics Division in Montreal is presently negotiating substantial contracts for electronic scoreboards required for the British Empire Games in Edmonton as well as for the 1976 Olympics in Montreal.

Your Gas Machinery Division has had a successful year in the capital goods market and at year end has a backlog of orders on hand.

Appreciation to Employees

On behalf of your Directors, I wish to take this opportunity to express to all employees of Bartaco Industries Limited, our appreciation for their loyalty to the Company, as well as their understanding in respect to the implementation of the policies adopted by the present management.

This sustaining loyalty by all Personnel will be most helpful during the 1975 fiscal period.

Sale of Operations

Subsequent to the 1974 fiscal year under review, your Company completed the sale of assets of Lynco Heating Company, Stoney Creek, Ontario, that was formerly controlled by Otaco Limited Factory Division. Under the sale agreement, the new owners will continue to operate the company as Lynco Heating Inc.

The Company is presently negotiating a sale of its Athletic Division, which hopefully, will be finalized shortly.

This concludes my first annual report to you and I look forward to seeing you at the Annual Meeting (Notice of which is enclosed) to bring you up to date in the affairs of your Company.

Respectfully submitted on behalf of the Board.



A handwritten signature in blue ink that reads "D. R. McKay". The signature is stylized with a large, sweeping initial "D" and a long, horizontal stroke at the end.

Orillia, Ontario
January 3, 1975

Douglas R. McKay
President

Bartaco Industries Limited and Subsidiaries

Consolidated Financial Statements

Consolidated Statement of Income

For The Year Ended September 30

REVENUES

| | 1974 \$ | 1973 \$ |
|--------------------------|------------|------------|
| Net sales (Note 5) | 13,328,056 | 25,016,690 |

COST AND EXPENSES

| | | |
|---|------------|------------|
| Cost of goods sold | 10,580,163 | 20,615,852 |
| Selling, administrative and general | 1,559,954 | 4,168,181 |
| Depreciation | 259,989 | 681,208 |
| Amortization | 35,247 | 277,703 |
| Interest | 504,755 | 462,234 |
| Taxes on income | | |
| Current | 175,846 | 95,722 |
| Deferred | (28,877) | (463,104) |
| | 13,087,077 | 25,837,796 |

| | | |
|--|---------|-----------|
| NET INCOME (LOSS) FROM CONTINUING OPERATIONS (Note 6) | 240,979 | (821,106) |
| Loss from operations of subsidiaries sold during the year (Note 5) | 423,823 | — |

| | | |
|---|---------|---------|
| NET LOSS BEFORE EXTRAORDINARY ITEMS (Note 6) | 182,844 | 821,106 |
|---|---------|---------|

EXTRAORDINARY ITEMS

| | | |
|---|-----------|-----------|
| Forgiveness of prior years' interest | — | (417,340) |
| Reduction of income taxes on application of prior years' losses | (178,550) | (65,600) |
| Loss on sale of subsidiary companies (Note 1) | 1,537,879 | — |
| Loss on discontinuance of operations | — | 108,739 |

| | | |
|---|-----------|---------|
| NET LOSS FOR THE YEAR (Note 6) | 1,542,173 | 446,905 |
|---|-----------|---------|

Consolidated Statement of Retained Earnings

For The Year Ended September 30

| | 1974 \$ | 1973 \$ |
|---------------------------------------|------------|------------|
| Balance - Beginning of Year | 590,048 | 1,154,151 |
| Net loss for the year | 1,542,173 | 446,905 |
| | (952,125) | 707,246 |
| Preference dividends | 36,196 | 117,198 |
| Balance (Deficit) - End of Year | (988,321) | 590,048 |

Consolidated Statement of Source and Use of Working Capital

For The Year Ended September 30

| | 1974 \$ | 1973 \$ |
|---|-------------------------|-------------------------|
| SOURCE OF FUNDS | | |
| Funds provided by operations | | |
| Loss from operations | (182,844) | (821,106) |
| Depreciation | 259,989 | 681,208 |
| Amortization | 35,247 | 277,703 |
| Changes in deferred credits | (28,877) | (310,163) |
| | <u>83,515</u> | <u>(172,358)</u> |
| Proceeds on sale of subsidiaries | 387,482 | — |
| Extraordinary items affecting working capital | 194,245 | 374,201 |
| Capital stock issued | 600,000 | — |
| Decrease in long-term investments | 190,567 | 65,000 |
| Changes in long-term receivables | — | (160,745) |
| Net book value of fixed assets sold | 48,957 | 142,958 |
| Decrease in deferred charges | 15,738 | — |
| | <u>1,520,504</u> | <u>249,056</u> |
| APPLICATION OF FUNDS | | |
| Purchase of property and equipment | 86,428 | 325,937 |
| Decrease in long-term debt | 297,648 | 550,969 |
| Increase in deferred charges | — | 5,458 |
| Dividends paid | 36,197 | 117,198 |
| | <u>420,273</u> | <u>999,562</u> |
| NET INCREASE (DECREASE) IN WORKING CAPITAL | <u><u>1,100,231</u></u> | <u><u>(750,506)</u></u> |
| WORKING CAPITAL — BEGINNING OF YEAR | 361,747 | 1,112,253 |
| Working capital of subsidiaries sold | 1,246,818 | — |
| | <u>(885,071)</u> | <u>1,112,253</u> |
| Net increase (decrease) in working capital | <u>1,100,231</u> | <u>(750,506)</u> |
| WORKING CAPITAL — END OF YEAR | <u><u>215,160</u></u> | <u><u>361,747</u></u> |

| | 1974 \$ | 1973 \$ |
|---|-------------------|-------------------|
| ASSETS | | |
| Current Assets | | |
| Cash | — | 5,919 |
| Marketable securities - at cost which approximates market value | — | 107,626 |
| Accounts receivable - Trade (Note 2) | 2,766,427 | 5,142,773 |
| Inventory - at the lower of cost or net realizable value (Note 2) | 2,521,106 | 3,003,022 |
| Prepaid expenses | 187,104 | 257,340 |
| | <u>5,474,637</u> | <u>8,516,680</u> |
| Total current assets | | |
| Due From an Associated Company (Note 1) | 1,800,000 | — |
| | <u>—</u> | <u>190,567</u> |
| Long-Term Investments - at cost | | |
| Instalment Accounts Receivable Due Within Two Years | — | 415,888 |
| | <u>—</u> | <u>—</u> |
| Property and Equipment - at cost | | |
| Land | 9,002 | 18,402 |
| Buildings and improvements | 1,761,862 | 6,244,848 |
| Machinery and equipment | 5,057,049 | 7,263,509 |
| | <u>6,827,913</u> | <u>13,526,759</u> |
| Less: Accumulated depreciation | 2,906,222 | 4,726,368 |
| | <u>3,921,691</u> | <u>8,800,391</u> |
| Other Assets - at cost | | |
| Excess of cost of acquired companies over equity | 80,950 | 583,765 |
| Deferred charges | 155,975 | 284,312 |
| | <u>236,925</u> | <u>868,077</u> |
| | <u>11,433,253</u> | <u>18,791,603</u> |

Signed on behalf of the board

D. R. McKay

Director

F. W. Simpson

Director

Balance Sheet

as at September 30

| | 1974 \$ | 1973 \$ |
|---|--------------------|----------------------|
| LIABILITIES | | |
| Current Liabilities | | |
| Notes and advances payable to bank (Note 2) | 2,936,721 | 2,442,049 |
| Accounts payable - Trade | 2,012,366 | 3,982,146 |
| Current portion of Long-term debt (Note 3) | 305,775 | 468,363 |
| Dividends payable | 4,615 | — |
| | <u>5,259,477</u> | <u>6,892,558</u> |
| Current portion of provision for future operating costs | — | 1,262,375 |
| Total current liabilities | <u>5,259,477</u> | <u>8,154,933</u> |
| Provision for Future Operating Costs | — | 704,311 |
| Long-Term Debt (Note 3) | <u>549,795</u> | <u>2,395,945</u> |
| Deferred Credits | | |
| Forgivable loan (Note 3) | 125,000 | 195,428 |
| Income taxes | — | 863,636 |
| Excess of equity in acquired companies over cost | 106,505 | 106,505 |
| Total deferred credits | <u>231,505</u> | <u>1,165,569</u> |
| SHAREHOLDERS' EQUITY | | |
| Capital Stock (Note 4) | | |
| Preference | 1,941,500 | 1,941,500 |
| Common | <u>4,439,297</u> | <u>3,839,297</u> |
| | 6,380,797 | 5,780,797 |
| Retained Earnings (Deficit) | (988,321) | 590,048 |
| | <u>5,392,476</u> | <u>6,370,845</u> |
| | <u>11,433,253</u> | <u>18,791,603</u> |

Bartaco Industries Limited and Subsidiaries

Notes to Consolidated Financial Statements

For The Year Ended September 30, 1974

1—Principles of Consolidation

The consolidated financial statements include the accounts of the company and its subsidiaries, all of which are wholly owned.

In March 1974, the Board of Directors approved the transfer of all shares of subsidiaries involved in the operation of health spas to a newly incorporated company, Vic Tanny Fitness Limited. This company was then sold to an associated company in return for its consideration to undertake the cost of redemption or purchase for cancellation of the 90,000 outstanding Series B 6% cumulative, redeemable, convertible preference shares, with a par value of \$20 each. These shares have an aggregate par value of \$1,800,000 plus dividends in arrears of \$81,000. The sale of the health spa operation which was deemed to have taken place as of December 31, 1973, resulted in a loss on disposition of \$1,566,977 (Note 5).

Also, the shares of Haley Industries Limited and the assets of the Don Barnes division were sold realizing profits of \$13,403 and \$15,695 respectively. The operations of the Don Barnes division are included in these statements for the three months prior to the assets being sold.

2—Security for Bank Advances

Bank advances are secured by a general assignment of book debts, shares in subsidiaries, fire insurance and inventory.

3—Long-Term Debt

| | Total \$ | Payable Within One Year \$ | Long-Term Portion \$ |
|--|----------------|-------------------------------------|----------------------------|
| 7¼% debenture due monthly to 1981 | 484,500 | 61,200 | 423,300 |
| Non-interest bearing notes due annually to 1975 | 64,035 | 64,035 | — |
| Sundry notes and mortgages payable with varying interest rates and maturity dates to 1977 | 31,765 | 29,340 | 2,425 |
| 8% note payable monthly, maturing in 1976 | 275,270 | 151,200 | 124,070 |
| | <u>855,570</u> | <u>305,775</u> | <u>549,795</u> |

Loans from the Ontario Development Corporation shown under “Deferred Credits” are forgivable over a period of five years, subject to compliance by the company with certain conditions.

4—Capital Stock

Authorized

98,375 Preference shares with a par value of \$20 each issuable in series
17,500 Second preference shares with a par value of \$200 each
2,700,000 Common shares of no par value

Issued

| | |
|--|------------------|
| | \$ |
| 7,075 6½% Series A cumulative preference voting shares, redeemable at par | 141,500 |
| 90,000 6% Series B cumulative convertible voting preference shares redeemable at par | 1,800,000 |
| 2,467,537 Common shares | 4,439,297 |
| | <u>6,380,797</u> |

The Articles of the Corporation have been amended to increase the authorized capital by creating an additional 700,000 common shares. 800,000 common shares have been issued during the year for a total consideration of \$600,000.

5—Revenues

The proportion of total revenues of \$13,328,056 contributed by different businesses was as follows:

| | 1974 \$ | 1973 \$ |
|---------------------------------------|-------------------|-------------------|
| Manufacturing | 11,455,121 | 13,380,831 |
| Leisure Time Industries. | — | 7,802,796 |
| Construction and Engineering. | 1,872,935 | 3,833,063 |
| | <u>13,328,056</u> | <u>25,016,690</u> |

Subsidiary companies sold during the year (Note 1) had revenues of \$1,929,387 and operating losses of \$423,823.

Continued on next page

Bartaco Industries Limited and Subsidiaries
Notes to Consolidated Financial Statements continued

6—Earnings (Loss) Per Share

| | 1974 \$ | 1973 \$ |
|---|--------------|--------------|
| From continuing operations | <u>.11</u> | <u>—</u> |
| From operations before extraordinary items..... | <u>(.11)</u> | <u>(.56)</u> |
| Net Loss | <u>(.82)</u> | <u>(.34)</u> |

Earnings per share for the 1974 fiscal year were calculated using the weighted monthly average number of shares outstanding.

7—Remuneration to Directors and Officers

Remuneration paid or payable to directors and senior officers amounted to \$189,582. (1973 - \$221,825)

8—Future Income Taxes

The company has accumulated losses for tax purposes of \$575,000 which may be carried forward and used to reduce taxable income in future years. These losses must be claimed no later than:

| | \$ |
|--------------------------------------|----------------|
| Year ending September 30, 1975 | 46,000 |
| 1976 | 268,000 |
| 1977 | 149,000 |
| 1978 | 104,000 |
| 1979 | 8,000 |
| | <u>575,000</u> |

9—Subsequent Event

The assets of the Lynco Heating Company Division were sold as of October 1, 1974 for \$378,460.

COOPERS & LYBRAND

CHARTERED ACCOUNTANTS

OFFICES THROUGHOUT CANADA
AND IN PRINCIPAL AREAS
OF THE WORLD

TELEPHONE (416) 525-0002
105 MAIN STREET EAST
HAMILTON, ONTARIO, CANADA
L8N 1G6

November 15, 1974

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Bartaco Industries Limited and its subsidiaries as at September 30, 1974 and the consolidated statements of income, retained earnings and source and use of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at September 30, 1974 and the results of their operations and the source and use of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

CHARTERED ACCOUNTANTS.



BARTACO INDUSTRIES LIMITED

HEAD OFFICE: West Street South, Orillia, Ontario, L3V 6L3

PRINCIPAL OPERATING PLANTS

| | |
|-----------------|---|
| ORILLIA | Otaco Limited - Foundry Division |
| | Otaco Limited - Factory Division |
| | Otaco Industries Limited - Transit Seating Division |
| | Wayne Forge Limited. |
| REXDALE | The Gas Machinery Company (Canada) Limited |
| | Pyronics Canada Limited |
| MONTREAL | Otaco Limited - Electronic Division |